

29 January 2026

Mrs Fiona Phillips MP

Chair

Federal House of Representatives Standing Committee on Regional Development, Infrastructure,
and Transport

Lodged via online portal

Re: Inquiry into Local Government Funding and Fiscal Sustainability

Dear Mrs Phillips MP

Thank you for the opportunity to make a submission to the Federal Parliamentary Inquiry into Local Government Funding and Fiscal Sustainability. This submission has been prepared with the input and support of our member councils but should be considered draft until it is formally endorsed by the NSROC Board.

Northern Sydney Regional Organisation of Councils (NSROC) is a voluntary association of eight local councils who have come together to collaborate and promote a united voice on key issues in our region. Our member councils are Hornsby, Hunter's Hill, Ku-ring-gai, Lane Cove, Mosman, North Sydney, Ryde and Willoughby. Collectively, the NSROC member councils service an area of 639km² with a population of over 660,000. We work together on policy and operational matters to drive efficiency and to enhance our region. The following submission builds on and updates our previous submission made to the *Inquiry into Local Government Sustainability* (attached).

Comments

Councils are required to engage with their communities and undertake comprehensive planning under the Integrated Planning and Reporting Framework. This process ensures that councils have a strong understanding of the services the community wants, the standards they expect, and the infrastructure required. It enables councils to set appropriate rates, fees and charges to deliver key priorities, projects and services. Changes in community expectations, impact of technology, ageing of our communities and flow-on impacts of decisions taken by the State Government means that the structural inflexibility to raise income is a major impediment to the ability of local councils to deliver modern services and meet State Government mandated requirements.

Cost shifting and the growing infrastructure and service delivery obligations

The unrelenting growth of cost shifting to councils is eroding any possibility of financially sustainable local government and risking the capacity of councils to deliver the essential infrastructure and services required by their communities.

The latest research commissioned by Local Government NSW (LGNSW)¹ shows that the increase in cost shifting has continued unabated by various NSW Government policies.

The cost shifting report, produced by independent consultants Morrison Low for the 2023/2024 financial year, reveals that \$1.5 billion of expense has been imposed onto councils. This is an increase of approximately \$140 million (10 per cent) since the last report for the 2021/22 financial year, when the total cost shift was estimated at \$1.36 billion.

This decades-long practice of cost shifting is continuing to undermine the financial sustainability of the local government sector. Since 2023, five of NSROC's eight member councils have applied or are expected to apply to IPART for a Special Rate Variation. Cost shifting by other levels of government is a significant driver of this need, particularly when coupled with the rate peg, changes to infrastructure contribution funding and other costs imposed on councils such as the implementation of the NSW Food Organics and Green Organics Mandate.

Impact of Housing Targets

NSROC councils acknowledge the housing crisis currently facing NSW and support accelerating the delivery of dwellings to meet the needs of our community. Across the eight NSROC member Councils, the housing target set in *The Sydney Plan* is 38,300 collectively, to the year 2029. This number of additional dwellings equates to almost 100,000 people.

To meet the needs of this growing population, Councils will be required to increase service delivery and provide additional facilities such as:

- Open space and recreation facilities
- Libraries
- Multifunction Community spaces (meeting rooms/halls)
- Waste removal and recycling services

NSROC's Infrastructure Priority Statement² highlights opportunities for the different levels of government to collaborate to deliver the required facilities.

NSROC already has a significant shortfall in the availability of sports facilities across the region³ that will be exacerbated as our population increases. While there are some mechanisms in place to increase revenue alongside population growth (rates and developer contributions), there will still be

¹ LGNSW [Cost shifting report](#).

² [NSROC Infrastructure Priority Statement 2025-2028](#).

³ [Review of Supply and Demand for Sports Facilities in the NSROC Region](#)

a significant funding shortfall under the current funding model. Also, the ongoing life-cycle costs of managing the infrastructure funded from developer contributions is not typically included in contribution plans.

Rate exemptions worsen financial sustainability and equity

Rates are the primary source of income for local councils for funding, delivering, and maintaining the infrastructure and services upon which the community relies. However, under Section 555 of the *NSW Local Government Act 1993*, councils are required to exempt various government and non-government organisations from paying rates. These exemptions and rebates directly reduce council revenue, severely limiting the ability of NSROC councils to provide and maintain essential infrastructure and services.

For example, private school rate exemptions are a growing concern within the NSROC region. One NSROC council manages 21 schools and two universities within just 10.5 square kilometres. Private schools alone occupy over 152,000 square metres in this LGA; had these holdings been rated as commercial properties, they would have generated more than \$1 million in annual revenue.⁴

Ultimately, these exemptions shift the financial burden of infrastructure maintenance onto residential and commercial ratepayers. To ensure long-term financial sustainability and equity, a formal review of the current legislative framework is required to establish a more balanced funding model.

Revenue Shortfalls in the Build to Rent housing (BTR)

BTR also has significant ramifications for council finances. The current legislation does not allow councils to maintain average rates per capita funding to service the new population. This is because BTR is generally held in single ownership and subject to the unimproved capital value (land value) rate assessment rather than separate assessments for each residential dwelling.

For example, an existing BTR development in the NSROC region consisting of 327 apartments pays \$47,000 in council rates. The equivalent 327 strata titled residential apartments would attract approximately \$370,000 p.a. if minimum rates were levied. This presents an inequity for existing ratepayers, who will effectively be cross subsidising these developments. This anomaly creates an unsustainable financial position for councils to service the greater population. The problem will only increase as more Build-to-Rent developments are built.

Other current real-life examples in the NSROC region include:

- 198 dwellings that would generate approximately \$208,266 per annum if strata subdivided, compared to \$5,945 as a single BTR lot - a shortfall of over \$202,000 per year.

⁴ [August 2025 Sydney Morning Herald article.](#)

- 257 dwellings that would generate \$270,325 per annum if strata subdivided, compared to \$13,257 as a BTR lot - a shortfall of \$257,000 per year.

This anomaly creates an unsustainable financial position for councils tasked with servicing a growing population. It presents a clear inequity for existing ratepayers, who effectively cross-subsidise these developments. As more BTR projects are completed, this funding gap will continue to widen.

Streamlining Special Rate Variations

Like many NSW local governments, NSROC councils are currently navigating a "structural deficit." This occurs when the cost of delivering essential services and maintaining infrastructure outpaces the revenue permitted under the standard rate peg. As noted above, since 2023, five of NSROC's eight member councils have applied or are expected to apply to IPART for a Special Rate Variation (SRV).

While the SRV mechanism is designed to provide an avenue for increasing general income, the current process is prohibitively resource and time intensive. Concerningly, the May 2025 NSW Government response to the NSW Inquiry into Ability of local governments to fund infrastructure and services proposes the introduction of forensic Comprehensive Spending Reviews for permanent rate increases with potential added evidentiary burden. This will increase administrative burden and generate a lag that further threatens council financial sustainability.

There is a critical need for a more streamlined assessment process and greater flexibility, allowing councils to adjust rates more efficiently to maintain service levels and ensure long-term fiscal sustainability.

The role of the Australian Government in addressing issues raised in relation to the above

NSROC councils are facing an escalating financial crisis driven by systemic cost-shifting and external constraints on mechanisms to raise revenue. Without adequate funding, councils will struggle to deliver critical infrastructure and maintain community liveability.

The financial strain is exacerbated by a rigid regulatory environment. The current "rate peg" system, coupled with legislated rate exemptions and resource-intensive SRV applications, has severely capped council revenue while operational costs continue to climb. To resolve this, NSROC supports a holistic and collaborative approach to developing a rating system that ensures financial sustainability and equity for councils while effectively managing costs for ratepayers.

Governments could also take immediate action in the area of tied grants by providing a long-term pipeline for funding projects that reflects needs of the community. This will allow councils to plan keeping in view sources of funding that are reliably available during their planning horizon

Conclusion

NSROC councils would welcome the opportunity to work constructively with State and Federal Governments to further consider effective mechanisms that ensure councils have the resources to fund the infrastructure and services their communities demand and deserve.

Thank you for the opportunity to provide a submission to the Parliamentary Inquiry into Local Government Funding and Fiscal Sustainability.

If you require further information, please don't hesitate to contact me on 0401 640 823 or at mmontgomery@lanecove.nsw.gov.au.

Yours sincerely



Dr Meg Montgomery

Executive Director

Northern Sydney Regional Organisation of Councils

29 May 2024

Mr Luke Gosling OAM MP

Chair

Federal House of Representatives Standing Committee on Regional Development, Infrastructure, and Transport

Lodged via online portal

Re: Inquiry into Local Government Sustainability

Dear Mr Gosling OAM MP

Thank you for the opportunity to make a submission to the Parliamentary Inquiry into Local Government Sustainability. This submission has been prepared with the input and support of our member councils but should be considered draft until it is formally endorsed by the NSROC Board.

Northern Sydney Regional Organisation of Councils (NSROC) is a voluntary association of eight local councils who have come together to collaborate and promote a united voice on key issues in our region. Our member councils are Hornsby, Hunter's Hill, Ku-ring-gai, Lane Cove, Mosman, North Sydney, Ryde and Willoughby. Collectively, the NSROC member councils service an area of 639km² with a population of 633,978. We work together on policy and operational matters to drive efficiency and to enhance our region.

Comments

Councils are required to engage with their communities and undertake comprehensive planning under the Integrated Planning and Reporting Framework. This process ensures that councils have a strong understanding of the services the community wants, the standards they expect, and the infrastructure required. It enables councils to set appropriate rates, fees and charges to deliver key priorities, projects and services. Changes in community expectations, impact of technology, ageing of our communities and flow-on impacts of decisions taken by the State Government means that the structural inflexibility to raise income is a major impediment to the ability of local councils to deliver modern services and meet State Government mandated requirements.

The financial sustainability and funding of local government

Councils require sufficient income to fund the operational and capital expenditure necessary to provide services and facilities to meet the needs of their local communities.

Councils' capacity to generate income is heavily reliant on their ability to charge user fees and their rate base. While many costs can be controlled by councils, most are influenced by forces outside their control including weather events, changes in demography, i.e. population growth, ageing of our communities, and cost-shifting by state government.

NSROC acknowledges the recent work undertaken by IPART and the NSW Government to implement a fairer, forward looking rate peg methodology and process Special Rate Variations. However, this work does not compensate for the previous years of under-funding, which has led to under-investment across the range of infrastructure required.

The Rate Peg imposed by State Government is a barrier to councils generating sufficient income to deliver against community expectations. It does not allow councils to adjust rates to reflect actual changes in their costs. It does not take account of changes in service levels, the impacts of extreme weather events, the impacts of climate change, the increasing costs associated with cyber security and continuing cost shifting by other levels of government. It is important to appreciate that in all areas under-investment today will require magnified remedial investment in the future which raises issues of inter-generational equity.

In New South Wales, local councils' rate base is impacted by *rating-exempt* land including Crown Land, religious bodies, schools, national parks, public hospitals, and universities. The exemptions lead to a narrowing of a council's rate base and decreased capacity to raise enough income to cover the costs of services. Inequities associated with rating-exempt land are increased when development of this land causes population growth and increased demand for civic services, be they libraries, open space, social infrastructure, road and transport facilities and infrastructure.

Statutory limits imposed on a range of fees and charges levied by councils are generally well below the cost of delivering these services. Examples include planning fees and the Stormwater Management Charge. These fees should be reviewed regularly to ensure they operate on an effective cost recovery basis.

Build To Rent housing (BTR) is increasingly a concern for councils. The current legislation does not allow councils to maintain average rates per capita funding to service the new population. This is because BTR is generally held in single ownership and subject to the unimproved capital value (land value) rate assessment rather than separate assessments for each residential dwelling.

Case study – An existing BTR development in the NSROC region consisting of 327 apartments pays \$47,000 in council rates. The equivalent 327 strata titled residential apartments would attract approximately \$370,000 p.a. if minimum rates were levied. This presents an inequity for existing ratepayers, who will effectively be cross-subsidising these developments. This anomaly creates an unsustainable financial position for councils to service the greater population. The problem will only increase as more 'Build-to-Rent' developments are built.

State and Federal Governments rely on Councils to deliver critical services and infrastructure to our shared communities. Accordingly, it is critical that councils are funded effectively, sustainably and with certainty.

The changing infrastructure and service delivery obligations of local government

Councils are required to provide and maintain key infrastructure including roads, footpaths, storm systems, marine structures, parks, sporting facilities, open spaces and more. Councils' income has not kept pace with the increasing cost of developing new infrastructure and of maintaining all infrastructure, which forces councils to either allow infrastructure to deteriorate or to cut services to their communities. As stated earlier, under-investment today leads to higher expenditure in catch-up investment in the future.

Further to this, increasing populations and high-density living place additional pressure on councils to provide and maintain more infrastructure and services. Again, the needs and priorities of communities have outpaced the capacity of councils to generate income to meet this expectation.

Councils are also incurring increased costs associated with the delivery of quality customer experience, fit for purpose IT systems, and the ongoing threat mitigation requirements associated with cyber security. Other examples are community demand for new sports infrastructure and paths for active transport, which represent a substantial change in community expectations and behaviours with important health and wellbeing impacts, such as reducing demand on the health system. These are just two examples of changing needs and meeting them is capital intensive that the current funding structure is not designed to deliver.

Any structural impediments to security for local government workers and infrastructure and service delivery

The current employment arrangements provide for a reasonable level of security for local government workers. However, it does not provide adequate incentives for training and progression to help respond to the changing nature of service provision. A spill-over impact of this is that the sector appears to be poor at attracting younger workers and technologically skilled workers while at the same time councils face risks arising from an ageing workforce and a need to manage change within its inflexible funding framework.

Some councils provide services that are funded under the Commonwealth Home Support Program. Changes to this program have resulted in councils discontinuing services (often to their most vulnerable community members), which in turn impacts staff engaged in these roles. This is a good example of how program changes can have flow-on impacts on employment and services flowing from council decisions arising from funding uncertainty.

Trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices

Councils have challenges attracting candidates in certain fields due to a general market shortage of workers, and other sectors (including the private sector) offering potential employees incentives councils are unable to match. Examples include town planners, building compliance officers, engineers, arborists, information technology professionals and environmental health officers.

Attachment - Previous Submission

Overall, it is observed that ageing of the workforce and changes in profile of skills required for effective and efficient service delivery will require innovative responses that are hindered by the current funding framework and industrial relations arrangements.

The role of the Australian Government in addressing issues raised in relation to the above

State and Federal Governments should provide ongoing support for the local government sector in skills development, and grant funding for apprentices and student placements. The number of tertiary institutions offering courses relevant to local government should be reviewed to increase the number of capable graduates.

Governments can take immediate action in the area of tied grants by providing a long-term pipeline for funding projects that reflects needs of the community. This will allow councils to plan keeping in view sources of funding that are reliably available during their planning horizon.

Conclusion

NSROC councils would welcome the opportunity to work constructively with State and Federal Governments to further consider effective mechanisms that ensure councils have the resources to fund the infrastructure and services their communities demand and deserve.

Thank you for the opportunity to provide a submission to the Parliamentary Inquiry into Local Government Sustainability.

If you require further information, please don't hesitate to contact me on 0401 640 823 or at mmontgomery@lanecove.nsw.gov.au.

Yours sincerely



Dr Meg Montgomery

Executive Director

Northern Sydney Regional Organisation of Councils

NORTHERN SYDNEY REGIONAL ORGANISATION OF COUNCILS

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